Irish Accounting Review (1997), Vol. 4, No. 2, 69–88

CONFLICT IN FINANCIAL REPORTING: THE CASE OF COILLTE

Hugh McBride

Galway RTC, Castlebar Campus

ABSTRACT

The paper examines the difference of opinion between the directors of Coillte Teoranta and the Urgent Issues Task Force on how the company should account for growth in its forest asset. It illustrates the problem of conflict in the choice of accounting policy. The approach followed by Coillte over the period 1989–1995 is outlined and the potential impact on the company accounts of the alternative policies applicable in the circumstances of the case is considered. The nature of the difference in the various policies and the merits of each are discussed and evaluated in the context of the Accounting Standards Board's draft Statement of Principles for Financial Reporting, its explanation of the thinking behind the development of FRS 3 and the requirement to present a true and fair view of financial performance and position. The role of regulation in resolving such conflict is considered.

INTRODUCTION

Coillte Teoranta – The Irish Forestry Board Limited – was established under the Forestry Act 1988 and incorporated as a private limited company in December of that year. It commenced trading on 1 January 1989, at which date it took over the forestry business and the related assets and liabilities of the forest service of the then Department of Energy. The company is fully State-owned and has two shareholders, the Minister for Finance and the Minister for Agriculture, Food and Forestry. The directors are appointed by the latter Minister. Coillte's turnover in 1995 was IR£67.9 million and it employed an average of 1,326 people in that year. The principal assets of the company are land and forests with a cost valuation of IR£736.2 million at 31 December 1995. This represents approximately 8% of the total land area of the State. Coillte is a significant commercial, environmental and political entity enjoying a high public profile and an operation that is highly visible and widely dispersed geographically throughout the State. It is subject to public scrutiny at the highest level with the relevant Minister being answerable for its performance in the Dáil. In this context, the highest standards of openness, transparency and accountability are expected from the company. Furthermore, such standards are likely to be enforced by knowledgeable shareholders with the backing and resources of the public service particularly in view of the added potential for *frisson* arising out of the political dimension.

COILLTE'S APPROACH TO ACCOUNTING FOR FOREST GROWTH

The period 1989–1992

Coillte's core trading asset is its forests which mature over an average 40-year cycle. In preparing the final accounts for the years 1989-1992, the directors chose an accounting policy of revaluing the forest asset prudently to reflect the physical growth in trees each year. This valuation of forest growth was deemed necessary to recognise and acknowledge the annual incremental increase in the economic value of the asset for the benefit of users of the accounts. The forest asset was stated in the balance sheet at cost plus the increase in value resulting from growth. The unrealised gain arising was credited to a capital growth reserve. The directors also took the view that, in order to reflect trading performance, the annual profit measure reported should incorporate the total realised gain on trading over the life of the forest asset. Profit on the sale of the forest asset was calculated as the difference between the sale proceeds and the historical costs incurred in planting and maintaining the forest throughout its life. This profit figure was then accounted for through the annual profit and loss account. Effectively, the annual profit measure included the forest growth realised during the year in question even though this may have been recognised previously in the balance sheet through the capital growth reserve. In addition to the statutory accounts, Coillte also published a *Statement of Increase in Forest Asset* giving details of annual forest revaluation arising from growth and the amount of previously recognised growth that was realised during the year.

The commitment of the directors to openness, transparency and accountability was reflected in the commendable level of disclosure in the annual reports and accounts. The efforts of the company in fulfilling its reporting responsibility were recognised by the Institute of Chartered Accountants in Ireland (ICAI) through its published accounts awards scheme. Coillte's accounts were finalists in each of the four years in question and won the published accounts award outright in three consecutive years.

Accounts for the year 1993

FRS 3, *Reporting Financial Performance* (ASB, 1992), was issued in October 1992 and applied to accounting periods ending on or after 22 June 1993. It proposed that all gains and losses arising in a period and recognised by an entity were to be considered in evaluating financial performance. It required the publication of a new primary performance statement, the *Statement of Total Recognised Gains and Losses (STRGL),* to include all the recognised gains and losses in a period attributable to shareholders. The corollary is that the same gains and losses should not be recognised a second time in a later period. For example, a gain recognised in the period when a fixed asset is revalued should not be recognised a second time in a subsequent period when the revalued asset is sold and the value realised. Realisation in such circumstances is merely a confirmation of a gain that has already occurred and was recognised at the time of revaluation. Consequently, the profit or loss on the disposal of the asset is to be accounted for in the profit and loss account as the difference between the net sales proceeds and the net carrying amount whether historical cost or valuation. This aspect of FRS 3 was of particular relevance to Coillte. It required that the value of the annual forest growth recognised be considered as a gain for that year and included in the STRGL. When the forests were harvested in a later period, the profit or loss on the sale would be accounted for as the difference between the net sales proceeds and the revalued amount. The policy followed by Coillte since 1989 was contrary to this requirement.

In preparing the 1993 accounts, the directors decided to depart from the requirements of FRS 3 and to continue to apply the same policy in relation to forest growth as had been followed since 1989. They indicated their intention to seek an exemption from the standard in order to continue to apply that policy in future periods. The auditors concurred with this approach. The reasons for the non-compliance with the standard were stated in detail in the notes to the Annual Report and Accounts (Coillte, 1993). The company's policy was adopted to ensure that the balance sheet more accurately reflected the value of the forest asset. The profit and loss account should reflect the performance of the core trading asset, forests, but should not include unrealised growth. The treatment required by FRS 3 would exclude from the profit and loss account all profits earned through the growth of the core trading forest asset over its life with the exception of that element of the growth increase earned in the year the forests are harvested. In summary, the company argued (Coillte, 1993, p. 43) that:

> The accounting policies adopted recognise the unusual nature of the forestry industry and properly reflect the Group's profitability in the profit and loss account and the value of the forest asset in the balance sheet.

Coillte referred the issue to the Accounting Committee of the ICAI and, after consideration by that body, a submission seeking guidance was made to the Urgent Issues Task Force (UITF). It was understood by all concerned that the UITF's guidance with regard to the treatment of the forest growth would be accepted by the company as authoritative.

Accounts for the years 1994 and 1995

The UITF considered the issue in January 1995. It did not support the policy being followed by Coillte. However, there was a recognition of the special nature of the maturing forest asset and that the balance sheet valuation should reflect the gradual growth of the trees. It proposed that the treatment in FRS 3 be adhered to but that an alternative form of presentation of financial performance could be used comprising a *Primary Performance Statement* with three columns of equal prominence: one which would show the statutory profit and loss account, one showing recognised gains and losses which would normally appear in the STRGL, and a total column. In effect, it required the application of FRS 3 in a slightly modified form. The proposal was intended for application not only by Coillte but by all companies with slowly maturing assets.

The UITF proposal proved unacceptable to the directors of Coillte. Their views were explained in the 1994 Annual Report and Accounts

(Coillte, 1994) in what was effectively a strong repetition of the position outlined the previous year. The treatment proposed by the UITF would not, in the opinion of the directors, be consistent with the economic and commercial characteristics of the business or properly reflect Coillte's true trading performance. They argued as follows (Coillte, 1994, p. 36):

> In previous years the carrying value of the forest asset was adjusted for forest growth and credited to the capital reserve in the Group's balance sheet. The application of FRS 3 to this valuation approach would exclude from the Group's profit and loss account all profits earned through the growth of the forest over its average 40-year life with the exception of that element of the growth increase earned in the year the forests are harvested. The forest asset is the Group's core trading asset and, in the opinion of the Directors, the exclusion of profits earned through growth from the profit and loss account would not give a true and fair view of the Group's trading performance.

In preparing the 1994 accounts, the directors decided to remove the increase in value resulting from growth from the forest asset and prepare the profit and loss account on a basis consistent with prior years. They reverted to historical cost accounting which, they argued, complied with the requirements of FRS 3. The forest asset was valued at historical cost in the statutory balance sheet. Information on forest growth during the year and on realised growth was disclosed in the *Statement of Increase in Forest Asset*. The notes to the accounts included a restated balance sheet incorporating forest growth to facilitate users in understanding the underlying value of the forest asset. The same approach was adopted in 1995.

The directors clearly believed that this approach did not contravene any accounting or legal requirements and presented a true and fair view of financial position and performance. The auditors were also satisfied that this was indeed the case. In effect, they took the view that the UITF guidance, although authoritative, only applied in the event that Coillte valued forest growth and included it in the statutory accounts. Arguably, this was contrary to the spirit of the UITF recommendation and the understanding that existed at the time the submission was made seeking guidance. However, there is no effective mechanism in place for enforcing compliance with the requirements of financial reporting standards in the Republic of Ireland (ROI). The Review Panel has no jurisdiction in the State and Coillte could reject the UITF recommendation, with the backing of its auditors, without fear of a challenge from that quarter. The ICAI has disciplinary procedures in place which could be invoked to investigate a failure on the part of a member to comply with accounting standards. However, it seems unlikely that these procedures would apply to the directors of Coillte even if they also happen to be members of the ICAI.

IMPACT ON COILLTE'S ACCOUNTS OF APPLYING VARIOUS POLICIES

It is pertinent to consider the potential impact on the Coillte accounts of applying the various accounting policies outlined above. **Tables 1–4** in the Appendix indicate the difference in the annual reported results that would have arisen under each policy in the period 1989–1995. The figures have been compiled from the information in the published accounts. **Table 1** is based on the policy followed by Coillte from 1989 to 1993 (the Coillte policy), **Table 2** on the historical cost policy while **Table 3** shows the annual reported results had the requirements of FRS 3 been followed throughout the period. The differences are summarised in **Table 4**. (See Appendix for all tables.)

The balance sheet amounts for the forest asset and the growth reserve will be identical in each period under the Coillte policy and the FRS 3 policy. No growth is included in the forest asset valuation under the historical cost approach and, therefore, the balance sheet will not provide users with an indication of the underlying value of the forest asset. Total recognised gains in each period will also be identical under the Coillte and FRS 3 policies; however, the composition of the STRGL will be different. The Coillte approach requires that realised gains on growth in a period be deducted in arriving at the total gains figure as these are already incorporated into the trading profit figure. Total recognised gains under historical cost will be lower in each period as unrealised gains on growth are not recognised in the accounts. The periodic profit measure under the Coillte and historical cost policies will be identical but will be lower under the FRS 3 approach as gains realised in a period but recognised in a previous period are not included. However, the retained profit total will be identical under each approach as the amount of realised growth in a period is transferred from the growth reserve to the profit reserve under the FRS 3 policy. In summary, the Coillte and FRS 3 policies differ in their treatment of the realised portion of forest growth and so in their profit measure. The historical cost policy ignores forest growth altogether.

The consequence of changing to a historical cost policy in 1994 was that the forest asset valuation on the balance sheet was IR£136.2 million, or 19%, less than otherwise. This difference increased to £160.9 million, or 21% less, in 1995. Reported profit in 1994 was IR£4.6 million, or 74%, higher than if the FRS 3 approach had been adopted but the total gains figure reported was IR£23.7 million, or 125% lower. In 1995 these differences were £5.2 million in reported profits or 71% higher and £24.7 million in total gains or 102% lower. Such differences in the reported results under the various accounting policies will continue for the foreseeable future in view of the fact that Coillte is literally a growing company with forests that have yet to achieve sustained yield.

The differences are material in amount and have a significant impact on reported results. However, the differences may be more apparent than real to a reasonably knowledgeable user of the accounts. Relevant information on forest growth and the amount of growth realised in each year was published in 1994 and 1995 in addition to the statutory accounts. There is no information excluded that otherwise would have been reported under the FRS 3 policy. Disclosure is not the issue. Coillte has been exemplary in this regard. The difference is arguably one of information-set presentation – a difference in the appearance of information disclosed rather than any matter of substantive content. It can be argued that any reasonably well-informed user would have little difficulty in understanding the position and performance of the company irrespective of the policy adopted and could redraft the figures in the accounts as required. It is interesting to note in this regard that Coillte reverses one of the requirements of FRS 3 without altering the outcome in terms of information reported. The standard requires entities that revalue assets to include a note of historical cost profits and losses as a memorandum item to ensure comparability with those entities that have not. Coillte does the opposite but effectively presents the same information.

THE NATURE OF THE POLICY DIFFERENCES

The overriding legal requirement in preparing and presenting company annual accounts is to give a true and fair view of the state of a company's affairs and of its profit or loss for the financial year. What constitutes a true and fair view in any given situation is, however, open to interpretation. There is no universal agreement as to its nature and meaning or on how it is to be achieved in practice. The conflict in the Coillte case arises because the directors interpret the requirement to give a true and fair view in a way which is different to that inherent in the application of FRS 3. In particular, the conflict centres on a difference of opinion as to the choice of accounting policy in relation to the treatment of gains from forest growth that will give a true and fair view of the company's annual trading profit and performance.

Coillte's core trading asset is its forests. These have a long-term trading cycle and grow physically and in value each year. There is agreement that the valuation of this annual forest growth is sufficiently relevant and reliable for inclusion in the annual accounts; that Coillte carries out such valuation in an appropriate and prudent manner; and that there is an unrealised gain to shareholders arising from the forest growth in each period. There is also agreement that the profit measure should indicate gains from trading. However, this gives rise to problems in measuring annual profit as the gains from the forest asset accrue over a number of years. The directors of Coillte are in agreement with FRS 3 that unrealised gains on forest growth should not be included in the profit measure in the period they are recognised but rather be reported through the STRGL. However, they argue that once such gains are realised they should be reported in full through the profit and loss account. Contrary to this, FRS 3 requires that the subsequent realisation of such gains should result only in a transfer from a non-distributable reserve to a distributable one. The Coillte directors consider all gains arising over the life of the forest asset to be an integral part of trading profit but deem it prudent not to treat them as such until they have been realised. The FRS 3 approach treats forest growth as a holding gain akin to that arising on the revaluation of a fixed infrastructure asset. Trading profit includes the gain arising and realised in the year of sale only. This reflects a difference in understanding as to the nature and meaning of the gains arising on forest growth. It also reflects an underlying difference that is of a more fundamental nature concerning the meaning, composition, interpretation and importance of profit as a measure of Coillte's periodic performance. The Coillte approach emphasises profit as the single most important measure of performance and realisation within a period as the key criterion for inclusion in the measure. The focus in the FRS 3 approach is on the amount and composition of all gains in evaluating performance and recognition within a period as the determining criterion for inclusion. In this latter context, the role of profit as a measure of Coillte's periodic performance is greatly diminished. It is this that forms the basis for the differing opinions as to what constitutes a true and fair view of trading profit and performance.

The rejection of the UITF proposal by the Coillte directors in preparing the 1994 accounts indicates the importance they attached both to realised profit over the life of the forest asset as a measure of trading performance and to the disclosure of this measure through the profit and loss account. The directors chose to postpone recognition of forest growth in the statutory accounts in order that realised profit on harvesting the forests, including growth over the life of the asset, be reflected in the profit measure. In their view, this alternative was preferable to the earlier recognition of an unrealised gain on forest growth reported through the STRGL, irrespective of the method of presentation of that statement. Clearly, the directors were not indifferent between annual profit and total annual gain as indicators of performance.

DISCUSSION AND EVALUATION

The case illustrates the problem of conflict in the choice of accounting policy and raises the question as to how such conflict should be resolved. The trend in recent times has been towards increased prescription in the form of reporting standards that are professionally set by a panel of experts within a framework of clearly defined principles: standards that are clearly expressed, well explained and well policed. This represents an attempt to solve the problem of conflict through quasi-legislation. In the UK, reporting standards are effectively mandatory but they do not yet command the same level of authority in the ROI as the Review Panel has no jurisdiction in the State. The directors of Coillte, with the backing of the auditors, were able to exercise a large element of discretion in their choice of accounting policy and depart from the requirements of FRS 3 and the recommendations of the UITF with impunity. It is pertinent to question whether a Review Panel is required in the ROI to ensure compliance with standards or whether increasing the level of regulation of accounting practice is desirable at all. The merits of the various policies applicable in the Coillte case are considered below in the context of the draft *Statement of Principles for Financial Reporting* (ASB, 1995) and the explanation of the thinking behind the development of FRS 3. The role of regulation in resolving conflict is then considered in the context of the requirement to present a true and fair view of financial performance and position.

The choice of accounting policy, in certain cases, may be determined by a variety of considerations which have less to do with "best" accounting practice and rather more with commercial, political or personal ambitions and motivations. It is tempting to consider whether there are any such factors involved in this particular case: to consider whether there are a range of contingent factors driving the preferred choice of policy by the directors of Coillte and indeed by the accounting bodies. Such speculation is interesting but beyond the scope of this paper.

The Statement of Principles for Financial Reporting (SOP)

The Accounting Standards Board (ASB) is committed to developing principles to guide it in establishing standards and to provide a framework within which others can exercise judgement in resolving accounting issues. The SOP represents the Board's main initiative in discharging this commitment. It was published as an entire document for the first time in the form of an Exposure Draft in November 1995. The stated primary purpose of the SOP is (ASB, 1995, p. 31):

> ... to provide a coherent frame of reference for the Accounting Standards Board to use in the development and review of accounting standards. In particular, it provides a basis for choosing between alternative accounting treatments.

The extent to which the SOP can be considered as a coherent frame of reference and a valid basis for exercising judgement in resolving conflict such as that arising in the Coillte case is, however, open to question. The principles and the standards are both developed by the ASB. The SOP makes it clear that in developing standards the ASB will have regard not only to the principles but also to the fundamental guidelines for conducting its affairs that it set out in its statement of aims. The SOP does not override the requirements of the law or of reporting standards; if a standard and the principles are in conflict, the requirements of the standard prevails. Furthermore, the SOP may be revised from time to time in the light of the ASB's experience of its working in practice. The principles are in effect secondary to the thinking and opinion of the ASB and its associated bodies and subject to amendment. In this context, it is difficult to envisage the SOP as a genuine arbiter of contending views and its value as a guide in solving problems of choice between alternative accounting treatments may be greatly limited as a consequence.

The approach adopted by the ASB in formulating the SOP echoes the conceptual framework project of the Financial Accounting Standards Board in the USA in the late 1970s and early 1980s. This was an attempt to establish a logical and coherent framework of interrelated objectives and concepts intended to enhance the conceptual foundations of standards and to promote confidence in and acceptance of these standards (Bernstein, 1989). The framework developed has yet to meet with universal agreement and

> ... there is no evidence that it can serve directly as a guide to provide solutions to difficult problems where there are differences of opinion. (Hendriksen, 1982, p. 129)

This applies equally to the SOP. It has undoubtedly contributed positively to debate in the UK and the ROI and this, in itself, is a welcome development. However, it does not amount to a comprehensive coherent conceptual framework and without such a conceptual underpinning standard setting remains a political process and the choice of best accounting practice remains essentially a matter of judgement and opinion. In the words of Myddelton (1995, p. 62):

> ... the kind of "authority" claimed for accounting standards, especially those dealing with measurement, is unwise in intellectual and commercial matters.

The implications for the Coillte case is that, in strict accounting terms, there is no conceptual basis for considering any one of the various policies under consideration inherently superior to any other. The SOP identifies the objectives of financial reporting as providing information about financial position, performance and financial adaptability useful to a wide range of users for assessing stewardship of management and for making economic decisions. It is a matter of opinion which of the various policies in dispute best meets these objectives. The qualitative characteristics described in the SOP relating to the content and the presentation of information in financial statements provide little or no practical guidance on resolving the conflict. The needs of users may be the dominant consideration but what those needs are and how best to meet them remains an open question. The SOP does not provide a basis for deciding whether financial information prepared and presented by Coillte in a particular manner would have a greater value to users and have the desirable characteristics in greater abundance than if an alternative approach was adopted. Of particular relevance in this regard is the assumption about users' abilities outlined in the SOP:

> ... financial information is generally prepared on the assumption that users have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence (ASB, 1995, p. 49).

This supports the argument that users would be indifferent to the application of the various policies and would feel equally comfortable with whichever one was adopted provided there was full disclosure of information.

The aspect of the SOP most immediately relevant to the Coillte case is the notion that financial performance be evaluated by considering total gains in value for a period with profit being treated as only one component of the total gain. Gains are recognised in a period if sufficiently reliable current values for assets are available and reported in one of the statements of performance – either the STRGL or the profit and loss account. Recognition rather than realisation is the criterion determining inclusion. Information on a gain realised in a period that had already been recognised in a previous period is to be provided in a note to the financial statements. Gains on assets held on a continuing basis primarily in order to enable operations to be carried out are reported in the STRGL. All other gains, including those from trading operations, are to be reported in the profit and loss account. The distinction between the performance statements does not rest on whether a gain is realised; unlike the legal position, the SOP does not restrict the reporting of gains in the profit and loss account on this basis. The nature of the asset in question is the key factor determining the statement in which a gain will be reported.

On this basis, it is logical to argue that the annual gains on forest growth recognised by Coillte should be included in the annual profit measure even though they are unrealised. Forests may be long-term in nature but they are a core trading asset, not an infrastructure asset. This approach underlies the thinking behind the development of FRS 3. However, it is contrary to the existing legal position and cannot be implemented at present. As a result of this conflict between the principles and the law, the application of the standard in the Coillte case, as recommended by the UITF, would give rise to a hybrid profit measure lacking in logic or relevance. Operating performance would be only partially reflected in a profit measure that would include only a small portion of the realised gains on trading assets. Gains in forest value through growth would be included in the STRGL only because they are unrealised. In order to comply with the law, realisation remains the dominant criterion in practice in determining treatment contrary to the position outlined in the SOP.

Essentially, the SOP proposes a radical change in approach to performance evaluation that focuses on a notion of all-inclusive periodic gain. This involves a change in the meaning, composition, interpretation and importance of the traditional profit measure and a departure from the colloquial significance attached to profit in everyday discourse. The suggestion is that the profit measure, as traditionally understood, will diminish in relative importance as an indicator of periodic performance. The important issue for users in assessing performance will be whether a gain is recognised and included in either of the performance statements rather than whether it is realised and included in the profit and loss account. It is this thinking that underlies the UITF recommendation in the Coillte case.

The Coillte directors adopt the traditional view as to the meaning, composition, interpretative content and importance of profit. They are not indifferent between it and total periodic gains as indicators of performance nor presumably do they imagine users to be. They are in agreement with the SOP that the profit measure should reflect the performance of trading assets. However, their concept of profit accords with the legal concept, which gives primacy to realisation rather than recognition in determining whether an item should be included in the measure. This reflects the view that users are primarily interested in the realised profits of the company in evaluating trading performance. The historical cost approach adopted by Coillte in 1994 results in a profit measure reflecting both trading performance and realised profit and as such combines the requirements of the SOP in relation to the content of the profit measure with the legal concept in relation to measurement. The adoption of the approach is indicative of the strength of the directors' belief in the significance of the traditional concept of profit to users and its relevance to reporting the performance of Coillte. It is notable that it results in a total periodic gain that is substantially less than would arise under the approach recommended by the UITF.

Finally, in this regard, it is worth noting that the reliability of the valuation of forest growth must be a key consideration if recognised but unrealised gains are to be considered in assessing annual performance. The revaluation downwards of forest growth in 1992 serves as a reminder of the dangers inherent in evaluating performance on the basis of unrealised gains on long term trading assets that might prove to be temporary and illusory.

The thinking behind the development of FRS 3

In developing the standard, the ASB explains (ASB, 1992) that it considered an information-set approach most appropriate for evaluating the performance of complex organisations. Within this context, it can be argued that the various treatments of forest growth in the Coillte case are equally valid and acceptable. Disclosure of information is the vital issue rather than the form of presentation. Users will be capable of adapting the information as required for their own purposes. However, the ASB goes on to argue for a prescribed form of presentation which seems contrary to the general thrust of the information-set approach and exhibits a certain confusion about the abilities of users. The new prescribed approach was needed, it was argued, as certain totals in the traditional profit and loss account were being used too simplistically and users placed automatic reliance on numbers without sufficient awareness of their content. This apparently would not be the case under the new approach, despite the fact that the financial statements "will sometimes appear more complex". It seems in future that the user would be an entirely more sophisticated being with a greater ability to understand the composition of numbers and adapt them as required. A normative didactic tone is adopted in explaining the merits of the proposal, although the claims that the presentation and disclosure requirements of the FRS *should* facilitate users remain unproven and speculative. The underlying paradox is this: If users do not have the sophistication assumed, it seems doubtful that the proposed approach will work as intended; however, if the users do have the required abilities, the new prescribed approach is not required in the first instance and it is doubtful whether it would be of any additional benefit to users. It is arguable that the approach adopted by Coillte in 1994 is in accord with the thrust of the information-set approach and that there would be no advantage to users if compliance with the standard in the manner proposed by the UITF was enforced.

True and Fair View

The conflict in the Coillte case centres on the question of which accounting policy gives a true and fair view of financial position and performance. Both the historical cost policy and the UITF approach purport to do so. The UITF judged that the application of the Coillte policy will not and this was accepted by Coillte. This seems illogical as the Coillte policy will report the same profit figure as under historical cost but also provides an asset valuation for forests in the balance sheet that is more relevant to users and is the same as under the UITF approach.

The present trend towards prescription can be considered as an attempt to establish a definitive version of what is true and fair in all circumstances. The threat of legal sanction for non-compliance is required for this to succeed. Ultimately, it is a matter for the courts to decide. However, it seems likely that the courts will be guided in this by the accounting standards and the opinions of the ASB and its associated bodies. It is this which ultimately confirms the authority of standards. Their legitimacy rests on the validity of the opinions of a body of experts and the willingness of non-expert judges to enforce those opinions. Attempting to capture the essence of the complex uncertain reality of an entity in a few financial statements is a difficult task. It is especially so if required to follow a set of rules not specifically designed to cope with particular circumstances and problems. It is facile to suggest that there is a "right way" of doing this that is better than any other – a way that is "correct" and equally applicable to all commercial situations. The danger inherent in the prescriptive approach is that it may result in efforts to maintain the integrity of standards and the credibility of expert bodies by a willingness to insist on fitting any odd-shaped pegs into standard holes. The Coillte directors and auditors believe that to follow FRS 3 in the treatment of forest growth would not present a true and fair view of their company performance. As an odd-shaped peg, they have a valid point.

CONCLUSION

The Coillte case illustrates the problems inherent in the increasing trend towards prescription, particularly in view of the absence of an agreed body of principles for guiding practice. It is questionable whether the directors and auditors of Coillte would have so blithely ignored the recommendations of the UITF if a Review Panel operated in the ROI. Yet the relative merits of the FRS 3 approach in the circumstances of the case are by no means established. The information-set approach adopted by Coillte in 1994 is consistent with the commercial characteristics of the business and is in accord with the SOP and the thinking behind the development of FRS 3. Furthermore, there is no basis to suppose that the resulting financial statements present a view that is any less true and fair or that the information is of any less relevance to users or any less reliable in content. There is no compelling reason to suggest that one policy is better than the other or that it matters to users which is applied as long as there is full disclosure.

In general, attempting to regulate for a diverse complex uncertain reality by means of a neat set of all-embracing mandatory standards is dubious and unlikely to succeed. However, it will generate a plethora of rules and regulations and may change the nature of the profession. Promulgating a set of framework standards governing disclosure within which accountants can practice their art seems a preferable option. Problems in accounting, such as in the Coillte case, arise out of the practical nature of a discipline in which generalised solutions are not always suitable for application in specific situations. In this context, trusting in the ability and integrity of practitioners at local level operating within a defined framework for information disclosure is arguably the best option. Otherwise, accounting becomes a technical exercise in implementing rules and regulations and truth and fairness may be lost in the process.

APPENDIX

Table 1: Coillte Policy – £'millions

	1989	1990	1991	1992	1993	1994	1995
Profit/(Loss) A/C							
Turnover	29.9	35.2	39.8	41.7	41.9	57.6	67.9
Trading Profit/(Loss)	(4.1)	1.6	1.5	1.6	3.6	12.7	14.8
Interest	(0.1)	(1.2)	(1.3)	(2.8)	(1.9)	(1.9)	(2.3)
Revenue Grant	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Profit/(Loss)	(0.3)	0.4	0.2	(1.2)	1.7	10.8	12.5
Retained Profit							
Opening balance	0.0	(0.3)	0.1	0.3	(0.9)	0.8	11.6
Closing balance	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
STRGL							
Profit for the year	(0.3)	0.4	0.2	(1.2)	1.7	10.8	12.5
Realised Growth	0.0	(0.8)	(2.1)	(3.3)	(3.6)	(4.6)	(5.2)
Growth during year	26.5	28.1	29.1	25.1	26.6	28.3	29.9
Growth Revaluation				(13.1)			
Grants	0.0	8.5	8.7	9.4	6.7	8.2	11.6
Total Gains	26.2	36.2	35.9	16.9	31.4	42.7	48.8
Balance Sheet							
Fixed Assets	624.5	678.3	733.5	764.2	805.3	858.7	916.6
Working Capital	(8.3)	(10.4)	(16.7)	(19.8)	(14.8)	(16.8)	(15.6)
	616.2	667.9	716.8	744.4	790.5	841.9	901.0
Financed by:							
Creditors (+1 year)	0.0	0.5	0.4	0.3	12.9	21.6	31.8
Share Capital	590.0	605.0	618.0	628.0	631.0	631.0	631.0
Growth Reserve	26.5	53.8	80.8	89.5	112.5	136.2	160.9
Retained Profit	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
Grant Reserve	0.0	8.5	17.3	27.5	33.3	41.5	53.2
	616.2	667.9	716.8	744.4	790.5	841.9	901.0
Growth Reserve							
Opening balance	0.0	26.5	53.8	80.8	89.5	112.5	136.2
Growth during year	26.5	28.1	29.1	25.1	26.6	28.3	29.9
Growth Revaluation				(13.1)			
Tfr. Realised Growth to Profit/Loss A/C	0.0	(0.8)	(2.1)	(3.3)	(3.6)	(4.6)	(5.2)
Closing balance	26.5	53.8	80.8	89.5	112.5	136.2	160.9

Table 2: Historical Cost Policy – £'millions

	1989	1990	1991	1992	1993	1994	1995
Profit/(Loss) A/C							
Turnover	29.9	35.2	39.8	41.7	41.9	57.6	67.9
Trading Profit/(Loss)	(4.1)	1.6	1.5	1.6	3.6	12.7	14.8
Interest	(0.1)	(1.2)	(1.3)	(2.8)	(1.9)	(1.9)	(2.3)
Revenue Grant	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Profit/(Loss)	(0.3)	0.4	0.2	(1.2)	1.7	10.8	12.5
Retained Profit							
Opening balance	0.0	(0.3)	0.1	0.3	(0.9)	0.8	11.6
Closing balance	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
STRGL							
Profit for the year	(0.3)	0.4	0.2	(1.2)	1.7	10.8	12.5
Grants	0.0	8.5	8.7	9.4	6.7	8.2	11.6
Total Gains	(0.3)	8.9	8.9	8.2	8.4	19.0	24.1
Balance Sheet							
Fixed Assets	598.0	624.5	652.7	674.7	692.7	722.5	755.7
Working Capital	(8.3)	(10.4)	(16.7)	(19.8)	(14.8)	(16.8)	(15.6)
	589.7	614.1	736.0	654.9	677.9	705.7	740.1
Financed by:							
Creditors (+1 year)	0.0	0.5	0.4	0.3	12.8	21.6	31.8
Share Capital	590.0	605.0	618.0	628.0	631.0	631.0	631.0
Growth Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Profit	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
Grant Reserve	0.0	8.5	17.3	27.5	33.3	41.5	53.2
	589.7	614.1	736.0	654.9	677.9	705.7	740.1

Table 3: FRS 3 Policy – £'millions

	1989	1990	1991	1992	1993	1994	1995
Profit/(Loss) A/C							
Turnover	29.9	35.2	39.8	41.7	41.9	57.6	67.9
Trading Profit/(Loss)	(4.1)	0.8	(0.6)	(1.7)	-	8.1	9.6
Interest	(0.1)	(1.2)	(1.3)	(2.8)	(1.9)	(1.9)	(2.3)
Revenue Grant	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Profit/(Loss)	(0.3)	(0.4)	(1.9)	(4.5)	(1.9)	6.2	7.3
Retained Profit							
Opening balance	0.0	(0.3)	0.1	0.3	(0.9)	0.8	11.6
Tfr. ex Growth Reserve							
Realised Growth	0.0	0.8	2.1	3.3	3.6	4.6	5.2
Closing balance	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
STRGL							
Profit for the year	(0.3)	(0.4)	(1.9)	(4.5)	(1.9)	6.2	7.3
Growth during year	26.5	28.1	29.1	25.1	26.6	28.3	29.9
Growth Revaluation				(13.1)			
Grants	0.0	8.5	8.7	9.4	6.7	8.2	11.6
Total Gains	26.2	36.2	35.9	16.9	31.4	42.7	48.8
Balance Sheet							
Fixed Assets	624.5	678.3	733.5	764.2	805.3	858.7	916.6
Working Capital	(8.3)	(10.4)	(16.7)	(19.8)	(14.8)	(16.8)	(15.6)
	616.2	667.9	716.8	744.4	790.5	841.9	901.0
Financed by:							
Creditor (+1 year)	0.0	0.5	0.4	0.3	12.9	21.6	31.8
Share Capital	590.0	605.0	618.0	628.0	631.0	631.0	631.0
Growth Reserve	26.5	53.8	80.8	89.5	112.5	136.2	160.9
Retained Profit	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
Grant Reserve	0.0	8.5	17.3	27.5	33.3	41.5	53.2
	616.2	667.9	716.8	744.4	790.5	841.9	901.0
Growth Reserve							
Opening balance	0.0	26.5	53.8	80.8	89.5	112.5	136.2
Growth during year	26.5	28.1	29.1	25.1	26.6	28.3	29.9
Growth Revaluation				(13.1)			
Tfr. Realised Growth to Retained Profit Reserve	0.0	(0.8)	(2.1)	(3.3)	(3.6)	(4.6)	(5.2)
Closing balance	26.5	53.8	80.8	89.5	112.5	136.2	160.9

Table 4: Summary of Differences – £'millions

	1989	1990	1991	1992	1993	1994	1995
Profit for year							
Coillte Policy	(0.3)	0.4	0.2	(1.2)	1.7	10.8	12.5
Historical Cost	(0.3)	0.4	0.2	(1.2)	1.7	10.8	12.5
FRS 3 Policy	(0.3)	(0.4)	(1.9)	(4.5)	(1.9)	6.2	7.3
Gains for year							
Coillte Policy	26.2	36.2	35.9	16.9	31.4	42.7	48.8
Historical Cost	(0.3)	8.9	8.9	8.2	8.4	19.0	24.1
FRS 3 Policy	26.2	36.2	35.9	16.9	31.4	42.7	48.8
Fixed Assets							
Coillte Policy	624.5	678.3	733.5	764.2	805.3	858.7	916.6
Historical Cost	598.0	624.5	652.7	674.7	692.7	722.5	755.7
FRS 3 Policy	624.5	678.3	733.5	764.2	805.3	858.7	916.6
Growth Reserve							
Coillte Policy	26.5	53.8	80.8	89.5	112.5	136.2	160.9
Historical Cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FRS 3 Policy	26.5	53.8	80.8	89.5	112.5	136.2	160.9
RETAINED PROFIT							
Coillte Policy	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
Historical Cost	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1
FRS 3 Policy	(0.3)	0.1	0.3	(0.9)	0.8	11.6	24.1

REFERENCES

Accounting Standards Board (1992). *Financial Reporting Standard (FRS) 3: Reporting Financial Performance*, London: ASB.

Accounting Standards Board (1995). *Exposure Draft: Statement of Principles for Financial Reporting*, London: ASB.

Bernstein, L. A. (1989). *Financial Statement Analysis: Theory, Application and Interpretation,* Irwin.

Coillte Teo (1993). Annual Report and Accounts.

Coillte Teo (1994). Annual Report and Accounts.

Hendriksen, E. (1982). *Accounting Theory*, Irwin.

Myddelton, D. R. (1995). *Accounting Without Standards?: Compulsion or Evolution in Company Accounting*, London: Institute of Economic Affairs.